KENT STATE UNIVERSITY FOUNDATION, INC.

FINANCIAL STATEMENTS
June 30, 2012 and 2011

Dave Yost • Auditor of State

Board of Directors
Kent State University Foundation, Inc.
1061 Fraternity Circle
Kent, Ohio 44242

We have reviewed the *Report of Independent Auditors* of the Kent State University Foundation, Inc., Portage County, prepared by Crowe Horwath LLP, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kent State University Foundation, Inc. is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

December 21, 2012

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KENT STATE UNIVERSITY FOUNDATION, INC.
Kent, Ohio

FINANCIAL STATEMENTS
June 30, 2012 and 2011

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Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Kent State University Foundation, Inc.
Kent, Ohio

We have audited the accompanying statements of financial position of Kent State University Foundation, Inc. (the "Foundation") as of June 30, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 15, 2012 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2012

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 612,567	$ 864,416
Receivables		
Pledges	5,945,677	7,506,848
Other	240,215	375
	6,185,892	7,507,223
Investments		
Long-term pool	111,028,141	114,780,646
Short-term pool	7,452,578	8,627,806
Charitable remainder trusts	5,429,400	6,720,267
Other	3,000	4,000
	123,913,119	130,132,719
Beneficial interest in trusts held by others	425,013	479,355
Note receivable	4,054,962	-
Property, net of depreciation	1,490,553	1,463,706
	$ 136,682,106	$ 140,447,419
LIABILITIES AND NET ASSETS		
Liabilities		
Short term borrowings	$ 4,055,320	$ -
Accounts payable	85,272	100,812
Funds held for others	6,842,067	7,088,277
Actuarial liabilities		
Annuities	2,257,593	1,389,531
Charitable remainder trusts	2,566,398	2,797,779
	15,806,650	11,376,399
Net assets		
Unrestricted	5,211,629	5,655,179
Temporarily restricted	83,988,655	92,048,998
Permanently restricted	31,675,172	31,366,843
	120,875,456	129,071,020
	$ 136,682,106	$ 140,447,419

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Revenue and Support				
Gifts				
Cash and securities	$ 62,549	$ 10,574,515	$ 870,504	$ 11,507,568
Events and other	-	317,108	-	317,108
Net change in pledges receivable	(7,954)	(317,907)	177,297	(148,564)
	54,595	10,573,716	1,047,801	11,676,112
Losses on pledges receivable	(3,709)	(1,332,719)	(76,179)	(1,412,607)
	50,886	9,240,997	971,622	10,263,505
Investment income				
Interest and dividends	595,413	2,114,021	-	2,709,434
Investment gains and losses	(955,493)	(4,920,737)	-	(5,876,230)
Investment income allocated to other beneficiaries of funds held for others	-	33,454	-	33,454
	(360,080)	(2,773,262)	-	(3,133,342)
Sales, services, events, and other	35,576	-	-	35,576
Changes in designation of prior contributions	141,238	(532,830)	391,592	-
Change in actuarial liabilities	-	(334,843)	(1,054,885)	(1,389,728)
Release of restrictions				
Administrative fees	1,140,667	(1,140,667)	-	-
Spending distribution	3,373,739	(3,373,739)	-	-
Hotel and conference center	767,003	(767,003)	-	-
Other support for Kent State University	8,378,996	(8,378,996)	-	-
Total release of restrictions	13,660,405	(13,660,405)	-	-
	13,528,025	(8,060,343)	308,329	5,776,011
Expenses and losses				
Support for Kent State University				
Academics	9,388,386	-	-	9,388,386
Athletics	515,602	-	-	515,602
WKSU	2,341,611	-	-	2,341,611
Fundraising	1,059,643	-	-	1,059,643
	13,305,242	-	-	13,305,242
Administration	665,119	-	-	665,119
Depreciation	1,214	-	-	1,214
	13,971,575	-	-	13,971,575
Change in net assets	(443,550)	(8,060,343)	308,329	(8,195,564)
Net assets at beginning of year	5,655,179	92,048,998	31,366,843	129,071,020
Net assets at end of year	$ 5,211,629	$ 83,988,655	$ 31,675,172	$ 120,875,456

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2011

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Revenue and Support				
Gifts				
Cash and securities	$ 56,862	$ 12,913,772	$ 373,376	$ 13,344,010
Events and other	-	763,506	25,000	788,506
Net change in pledges receivable	19,376	(1,038,679)	(26,013)	(1,045,316)
	76,238	12,638,599	372,363	13,087,200
Losses on pledges receivable	(9,356)	(688,797)	(20,751)	(718,904)
	66,882	11,949,802	351,612	12,368,296
Investment income				
Interest and dividends	834,569	2,307,610	-	3,142,179
Investment gains	3,627,191	14,406,565	-	18,033,756
Investment loss allocated to other beneficiaries of funds held for others	-	(1,423,597)	-	(1,423,597)
	4,461,760	15,290,578	-	19,752,338
Sales, services, events, and other	27,815	-	-	27,815
Changes in designation of prior contributions	2,921	84,545	(87,466)	-
Change in actuarial liabilities	-	(68,885)	725,838	656,953
Release of restrictions				
Administrative fees	1,123,906	(1,123,906)	-	-
Spending distribution	3,499,544	(3,499,544)	-	-
Other support for Kent State University	11,910,272	(11,910,272)	-	-
Total release of restrictions	16,533,722	(16,533,722)	-	-
	21,093,100	10,722,318	989,984	32,805,402
Expenses and losses				
Support for Kent State University				
Academics	11,232,336	-	-	11,232,336
Athletics	450,637	-	-	450,637
WKSU	3,624,043	-	-	3,624,043
Fundraising	1,553,378	-	-	1,553,378
	16,860,394	-	-	16,860,394
Administration	655,320	-	-	655,320
Depreciation	1,214	-	-	1,214
	17,516,928	-	-	17,516,928
Change in net assets	3,576,172	10,722,318	989,984	15,288,474
Net assets at beginning of year	2,079,007	81,326,680	30,376,859	113,782,546
Net assets at end of year	$ 5,655,179	$ 92,048,998	$ 31,366,843	$ 129,071,020

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	$ (8,195,564)	$ 15,288,474
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net (gains) losses on investments	5,876,230	(18,033,756)
Contributions permanently restricted	(870,504)	(398,376)
Change in actuarial obligations	1,389,728	(656,953)
Gifts of stock	(438,502)	(1,030,000)
Losses on pledges receivable	1,412,607	718,904
Depreciation	1,214	1,214
Changes in operating assets and liabilities		
Pledges receivable	148,564	1,045,316
Other receivable	(239,840)	3,495
Beneficial interest in lead trust	54,342	19,266
Accounts payable	(15,540)	33,406
Funds held for others	(246,210)	373,680
Actuarial liability for annuity and unitrust agreements	(233,519)	1,448,296
Net cash used in operating activities	(1,356,994)	(1,187,034)
Cash flows from investing activities		
Purchases of investments	(57,923,955)	(96,120,153)
Proceeds from sales of investments	58,708,233	96,360,208
Issuance of note receivable	(4,054,962)	-
Purchase of properties	(44,061)	(286,350)
Proceeds from sale of property	13,594	79,848
Net cash provided by (used in) investing activities	(3,301,151)	33,553
Cash flows from financing activities		
Proceeds from short term borrowings	4,055,320	-
Proceeds from contributions restricted for investment in endowment	870,504	398,376
Payments to annuitants	(519,528)	(616,178)
Net cash provided by (used in) financing activities	4,406,296	(217,802)
Net change in cash and cash equivalents	(251,849)	(1,371,283)
Cash and cash equivalents at beginning of year	864,416	2,235,699
Cash and cash equivalents at end of year	$ 612,567	$ 864,416

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION

Kent State University Foundation, Inc. (the "Foundation") was incorporated as a non-profit organization on December 27, 1965 as an independent self-governing body under the laws of the State of Ohio for the purpose of aiding, supporting, advancing, augmenting, and assisting in the development of Kent State University (the "University"). The Foundation is governed by a self-appointing Board of Directors composed of campus and community members. The Board of Directors has adopted a Code of Regulations for purposes of governance.

The Foundation has an operating agreement with the University dated July 1, 1997. The provisions of that agreement require the Foundation to reimburse the University for direct expenses related to Foundation administration. The Foundation has no employees of its own.

The Foundation is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from paying federal income taxes pursuant to Section 501(a) of the Internal Revenue Code. Additionally, the Foundation is defined as a public charity pursuant to 509(a) (2).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting and Presentation</u>: The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as applied to not-for-profit organizations and utilize the accrual basis of accounting. Furthermore, the accounting policies adhered to by the Foundation are generally consistent with the Audit and Accounting Guide for Not-For-Profit Organizations issued by the American Institute of Certified Public Accountants.

The financial statement presentation follows applicable Financial Accounting Standards Board ("FASB") guidance, wherein, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

The preparation of financial statements in conformity with U.S. GAAP requires the Foundation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

<u>Income Taxes</u>: Pursuant to determination by the Internal Revenue Service, the Foundation is exempt from federal income tax under section 501(c) (3) of the Internal Revenue Code.

The Foundation recognizes as a benefit only if it is "more-likely-than-not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more-likely-than-not" test, no tax benefit is recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2012 or 2011.

The Foundation would recognize interest and penalties related to unrecognized tax benefits in interest and income tax, respectively. The Foundation has no amounts accrued for interest or penalties at June 30, 2012 or 2011 and is no longer subject to examination by taxing authorities for years before 2009. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts: Gifts are recorded on the date of receipt. Gifts of securities are recorded at fair value. Gifts requiring future payment obligations are recorded as the difference between the assets received and the future payment obligation. Gifts-in-kind are recorded at a substantiated amount which reflects the useful value for its intended purpose. All gifts are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support.

Functional Allocation of Expenses: The costs of providing various programs and supporting services are summarized on a functional basis in the statements of activities.

Fair Value of Assets and Liabilities: FASB Accounting Standards Codification ("ASC") 820 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities and expands the disclosure of the methods used and the effect of fair value measurements on earnings. The Foundation uses fair value accounting for cash and cash equivalents, investments, pledge receivables, beneficial interests in lead and perpetual trusts, accounts payable and actuarial liabilities. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data and developing these estimates.

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

There are three levels of inputs that may be used to measure fair values.

> Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Cash and Cash Equivalents: Cash and cash equivalents as presented in the financial statements are for operating purposes and include highly liquid investments with original maturities of three months or less that are not included in investments. At various times throughout the fiscal year, the Foundation had in excess of $250,000 on deposit with a financial institution whose deposits are federally insured up to $250,000.

Investments: Fluctuations in fair value of investments, as well as gains or losses on sales of securities, are recognized in the statements of activities. Investments are presented in the statements of financial position according to their intended purpose. The Foundation maintains both a short-term and a long-term pool of investments. Trust investments are segregated into individual funds. All income from the short-term pool is unrestricted except for any portion that is allocated to temporarily restricted construction funds and annuity funds. The long-term pool is operated using a unitized share method and is the primary investment vehicle for endowed funds. Trust investment income is assigned to the segregated fund which generated the income.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable: Unconditional pledges are recorded in the period that the pledges are received. Conditional pledges are recorded in the period in which the conditions have been met. Funds from pledges to be collected in future years are presented at net present value. All pledges are presented net of an allowance for doubtful collections. Contributions receivable are reviewed annually to determine if an allowance for uncollectible contributions receivable is needed. Based upon management's judgment, considering such factors as prior collection history, type of contribution and nature of fund-raising activity, an allowance for uncollectible contributions receivable has been provided.

Beneficial Interest in Trusts Held By Others: Non-custodial, non-revocable trusts which will benefit the Foundation are recognized as gift revenue and as an asset in an amount equal to the present value of the estimated future beneficiary payments to be received. Changes in the asset value are recognized as market gains and losses.

Property: Property consists of real estate acquired through purchase or gifts. All property is recognized at the acquisition cost or the fair value of the gift when received. Buildings included in real estate are depreciated on a straight-line basis over a forty-year period. All other property is fully depreciated.

Impairment of Long-Lived Assets: The Foundation continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, the Foundation estimates the sum of the expected future cash flows, undiscounted and without interest charge derived from such assets over their remaining useful life. The Foundation has determined that no impairment of long-lived assets exists at June 30, 2012 or 2011.

Collections: Purchases of collection items are expensed as incurred. Items contributed to collections during the year are not reflected in the Foundation's financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Foundation received proceeds of $80 and $5,238 from deaccessions during the years ended June 30, 2012 and 2011, respectively.

Actuarial Liabilities: Obligations to pay stipulated amounts periodically to donors and/or other designated individuals under split interest and annuity agreements are accounted for at fair value using an income approach.

Net Assets: The Foundation's net assets are classified into three categories: (1) unrestricted, which have no donor restrictions, (2) temporarily restricted, which include donor-imposed restrictions that will expire in the future, and (3) permanently restricted, which include donor imposed restrictions that the assets be maintained permanently.

Endowments: The Foundation accounts for endowment funds in accordance with FASB guidance pertaining to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Foundation interprets UPMIFA as requiring only those gifts and accumulations explicitly directed by the donor to be preserved to be classified as permanently restricted net assets. Endowment funds not classified as permanently restricted net assets are classified as temporarily restricted net assets until utilized by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA.

Endowment funds are invested with the overall objective of preservation of principal, competitive investment returns, and moderate investment risk resulting in a real (inflation-adjusted) annualized rate of return greater than the spending rate and investment-related expenses. The Foundation considers the expected annual return on its endowment investments when developing its spending policy. As a result, the Foundation expects that its current spending policy will allow the endowment funds to maintain real value while also experiencing growth through additional gifts and accumulated earnings.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation has a 5% spending policy whereby a portion of the accumulated investment return for endowment assets is distributed on May 31st and November 30th each year to funds which may be expended for current operations in accordance with any restrictions of the endowment fund. The distribution is calculated using a 2.5% semi-annual equivalent of the rate, applied against the average of the preceding month-end investment balances. The average preceding month end investment balance is calculated as the lesser of thirty-six months or the number of months the fund has been in existence. Certain endowment funds do not permit a spending distribution below the historic gift value or other donor designated amount.

As a result of market declines, the fair value of certain permanently restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled $134,661 and $39,875 at June 30, 2012 and 2011, respectively.

Life Insurance Policies: The Foundation has been named as the beneficiary of several life insurance policies. The Foundation's accounting policy is to record the insurance proceeds as other revenue when received. The total face value of the policies that name the Foundation as beneficiary is approximately $405,000 and $905,000 at June 30, 2012 and 2011, respectively.

Subsequent Events: The Foundation has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2012, for items that should be recognized or disclosed in these financial statements. This evaluation was conducted through October 15, 2012, the date these financial statements were available to be issued.

NOTE 3 – INVESTMENTS

The fair value of the Foundation's investments, as of June 30, 2012 and 2011, are as follows:

	2012	2011
Corporate stocks	$ 6,661,917	$ 7,318,389
Government bonds	3,000	4,000
Limited partnership hedge fund	10,278,671	10,917,231
Mutual funds		
Large capitalization equity funds	26,936,748	31,318,612
Small / middle capitalization equity funds	5,707,315	5,635,174
International equity funds	21,902,491	25,280,380
Other mutual funds	16,468,746	18,148,406
Fixed income funds	35,954,231	31,510,527
	$ 123,913,119	$ 130,132,719

Investments are managed by the Board of Directors of the Foundation based upon the recommendations of a board directed investment committee and in accordance with a defined investment policy. The policy contains objectives, guidelines, and restrictions regarding investing. The board employs an investment consultant to assist in matters of asset allocation, investment manager selection, and performance measurement. All investments are maintained by custodians with the exception of a small amount of securities held by the Foundation.

(Continued)

NOTE 3 – INVESTMENTS (Continued)

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. With respect to the Foundation's investments in corporate stocks, the Foundation maintains a diverse investment portfolio, without any concentration of risk in any particular industry sector. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

The following table presents information about the investments measured at fair value on a recurring basis as of June 30, 2012 and 2011:

	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012				
Corporate stocks	$ 6,661,917	$ 6,661,917	$ -	$ -
Government bonds	3,000	-	3,000	-
Limited partnership hedge fund	10,278,671	-	-	10,278,671
Mutual funds				
Large capitalization equity funds	26,936,748	26,936,748	-	-
Small / middle capitalization equity funds	5,707,315	5,707,315	-	-
International equity funds	21,902,491	21,902,491	-	-
Other mutual funds	16,468,746	16,468,746	-	-
Fixed income funds	35,954,231	23,943,143	12,011,088	-
	$ 123,913,119	$ 101,620,360	$ 12,014,088	$ 10,278,671

	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011				
Corporate stocks	$ 7,318,389	$ 7,318,389	$ -	$ -
Government bonds	4,000	-	4,000	-
Limited partnership hedge fund	10,917,231	-	-	10,917,231
Mutual funds				
Large capitalization equity funds	31,318,612	31,318,612	-	-
Small / middle capitalization equity funds	5,635,174	5,635,174	-	-
International equity funds	25,280,380	25,280,380	-	-
Other mutual funds	18,148,406	18,148,406	-	-
Fixed income funds	31,510,527	20,273,890	11,236,637	-
	$ 130,132,719	$ 107,974,851	$ 11,240,637	$ 10,917,231

The fair values of debt and equity investments, and mutual funds, that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates (Level 2 inputs).

(Continued)

NOTE 3 – INVESTMENTS (Continued)

The Foundation invests in alternative investments which includes investments in limited partnerships. Fair value represents the Foundation's proportionate interest in the net assets of these funds. Fair value is calculated by taking total number of shares of a particular class of a fund owned, divided by the number of such class of shares outstanding, times the net assets of the fund. Fair values are supplied to the Foundation by third party administrators. Audited information about these funds is available annually. Due to current market conditions as well as the limited trading activity of these securities (Level 3 inputs), the fair values reflected in the accompanying financial statements are highly sensitive to assumption changes and market volatility. Therefore, the current values, utilizing a market approach, may differ from the ultimate realizable values and these differences may be significant.

One of the alternative investments in which the Foundation invests has an investment objective to generate superior, long-term return with less risk than the United States of America (the "United States") equity markets. The objective of the other alternative investment is to provide returns consistent with the United States consumer price index plus 5% over the long-term by investing in areas that offer strong relative performance in rising inflation environments. In accordance with the terms of investments, the Foundation is able to redeem its investments in these limited alternative investments by providing prior written notice ranging from one-hundred days to one year. At June 30, 2012 and 2011, the Foundation has no unfunded commitments to either of these alternative investments.

The table below presents a reconciliation and activity statement classification of gains and losses for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	$ 10,917,231	$ 7,711,164
Purchases	86,114	1,721,056
Sales	(51,875)	(48,704)
Realized gains (losses)	6,284	5,246
Unrealized gains (losses)	(679,083)	1,528,469
Balance at end of year	$ 10,278,671	$ 10,917,231

At June 30, 2012, the amount of unrealized gains related to investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for those investments still held at June 30, 2012, was $908,088.

NOTE 4 – HOTEL AND CONFERENCE CENTER

On February 23, 2012, the Foundation entered into a Construction Loan Agreement with the party (Downtown Kent, LLC, the "Borrower") developing a hotel and conference center located in Kent, Ohio (the "Hotel and Conference Center"). The Construction Loan Agreement allows for the Borrower to borrow up to $15,400,000 under the Construction Loan Agreement for purposes of developing the Hotel and Conference Center. The Construction Loan Agreement bears interest at 8.00% per annum and matures on March 29, 2013, or upon occurrence of other events, as outlined in the Construction Loan Agreement. At June 30, 2012, the Foundation had advanced the Borrower $4,054,962 under the Construction Loan Agreement.

(Continued)

NOTE 4 – HOTEL AND CONFERENCE CENTER (Continued)

Subsequent to June 30, 2012, outstanding borrowings under the Construction Loan Agreement were repaid in full. The Foundation then loaned approximately $13,500,000 under a new loan agreement with another party involved in the development of the Hotel and Conference Center. The Foundation funded this loan with proceeds from the Line of Credit (see Note 6).

During the year ended June 30, 2012, the Foundation entered into a ground lease agreement (the "Lease Agreement") in which the lessor will build the Hotel and Conference Center on land owned by the Foundation. Lease payments under the Lease Agreement are due to the Foundation based upon actual revenues generated by the Hotel and Conference Center and will commence the earlier of April 1, 2013 or the date the Hotel and Conference Center opens for business.

NOTE 5 – PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at fair value using an income approach. The use of an income approach in determining fair value requires the Foundation to estimate the expected timing of future cash flows from pledges receivable. The future expected cash flows from pledges receivable are discounted to their net present value using discount rates representing the daily Treasury Bill rates as of each balance sheet date (Level 2) (weighted average discount rate of 0.43% and 0.99% at June 30, 2012 and 2011, respectively). Pledges receivable at June 30, 2012 and 2011 have the following restrictions:

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2012				
Pledges receivable	$ 8,406,047	$ 18,975	$ 8,240,630	$ 146,442
Less: Reserve for uncollectible pledges	2,383,578	3,243	2,347,151	33,184
Less: Present value discount	76,792	57	75,514	1,221
	$ 5,945,677	$ 15,675	$ 5,817,965	$ 112,037

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2011				
Pledges receivable	$ 11,579,374	$ 32,358	$ 11,525,815	$ 21,201
Less: Reserve for uncollectible pledges	3,786,515	4,777	3,771,510	10,228
Less: Present value discount	286,011	243	285,713	55
	$ 7,506,848	$ 27,338	$ 7,468,592	$ 10,918

(Continued)

NOTE 5 – PLEDGES RECEIVABLE (Continued)

Pledges receivable at June 30, 2012 and 2011 are expected to be realized in the following periods:

	2012	2011
Less than one year	$ 3,401,692	$ 4,173,655
One to five year	4,497,540	6,181,338
More than five years	506,815	1,224,381
	$ 8,406,047	$ 11,579,374

As of June 30, 2012, the Foundation has approximately $45,795,000 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. Substantially all of the Foundation's contingent pledges are bequests. These pledges are not recorded as receivables or recognized as revenue because they do not represent unconditional promises to give.

The table below presents a reconciliation of the fair value of pledge receivables for the years ended June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	$ 7,506,848	$ 9,271,068
Additional pledges	2,933,623	4,961,345
Collections on pledges	(3,291,406)	(5,912,534)
Provision for doubtful pledges	(1,412,607)	(718,904)
Present value change	209,219	(94,127)
Balance at end of year	$ 5,945,677	$ 7,506,848

NOTE 6 – SHORT TERM BORROWINGS

On April 6, 2012, the Foundation entered into a loan agreement with a bank for a $10,000,000 revolving line of credit ("Line of Credit"). The Foundation had outstanding borrowings of $4,055,320 on the Line of Credit at June 30, 2012. The Line of Credit is collateralized by certain investment securities held by the Foundation. Interest is based on LIBOR plus 0.70% (effective rate of 0.94% at June 30, 2012), and is payable monthly. The Line of Credit matures on April 15, 2015.

The Line of Credit requires the Foundation to comply with certain affirmative and negative covenants. The Foundation was in compliance with these covenants at June 30, 2012.

NOTE 7 – BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS

The Foundation has a beneficial interest in a lead trust. The fair value of the beneficial interest is based on an income approach valuation model, developed by the Foundation, which calculates the present value of a fixed annual payment for a term of years. The valuation model incorporates the Foundation's assumptions that market participants would use in estimating future income (Level 3). At June 30, 2012 and 2011, the fair value of the Foundation's interest was $193,588 and $241,412, respectively.

(Continued)

NOTE 7 – BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS (Continued)

The table below presents a reconciliation of the fair value of the beneficial interest in a lead trust which is measured on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	$ 241,412	$ 292,602
Change in fair value	(47,824)	(51,190)
Balance at end of year	$ 193,588	$ 241,412

The Foundation also has beneficial interests in various perpetual trusts. The fair value of the beneficial interest is based on quoted prices for similar assets or liabilities that are observable or can be corroborated by observable market data (Level 2 inputs). However, in accordance with FASB guidance at June 30, 2012, the beneficial interests in perpetual trusts are classified as a Level 3 investment, as the Foundation does not have the ability to redeem the beneficial interest in these perpetual trusts. At June 30, 2012 and 2011, the fair value of the Foundation's interests in these perpetual trusts was $231,425 and $237,943, respectively.

The table below presents a reconciliation of the fair value of the beneficial interest in perpetual trusts for the year ended June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	$ 237,943	$ 206,019
Change in fair value	(6,518)	31,924
Balance at end of year	$ 231,425	$ 237,943

NOTE 8 – SPLIT INTEREST TRUSTS

The Foundation has entered into split interest trust agreements whereby it receives assets from donors on the condition that it binds itself to pay stipulated amounts periodically to the donor and/or other designated individuals. Assets received in a split interest trust transaction are maintained in segregated custodial investment accounts. The Foundation's payment liability is limited to the amount of the trust assets. For periods subsequent to the effective date of the agreements, investment income from the segregated assets increases the actuarial liability account. Stipulated payments, administrative expenses, and investment losses from the segregated assets decrease the actuarial liability account. At year-end, an adjustment is made to the actuarial liability to record the net change in the actuarial obligation between years.

At the date the agreements are made effective, the difference between the assets received and the fair value of the future obligation to the donor, the net asset, is recorded as a gift. Upon termination of each agreement's stipulated payout period, the remaining assets are distributed for the purpose designated by the donor.

(Continued)

NOTE 8 – SPLIT INTEREST TRUSTS (Continued)

The obligation for future stipulated payments to donors and other designated individuals is accounted for at fair value using an income approach. Using an income approach to measure these obligations requires the Foundation to estimate the expected timing of payments associated with these obligations. These obligations are discounted to fair value using a discount rate consistent with Internal Revenue Service publications (Level 2) as of each balance sheet date (1.2% and 2.8% for the years ended June 30, 2012 and 2011, respectively). Under this method, the change in the fair value of the future amounts payable is credited to the actuarial liability account.

Presented below is a roll forward of the fair value of the liability at June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	$ 2,797,779	$ 2,803,281
Investment income	(42,525)	1,241,565
Annuity/trust payments	(319,639)	(467,315)
Expenses	(26,767)	(28,319)
Liquidations	(897,335)	(25,595)
Net change in actuarial liability	1,054,885	(725,838)
	(231,381)	(5,502)
Balance at end of year	$ 2,566,398	$ 2,797,779

NOTE 9 – GIFT ANNUITY FUNDS

The Foundation has entered into annuity agreements whereby the Foundation receives assets from donors on the condition that it binds itself to pay stipulated amounts periodically to the donor and/or other designated individuals. The Foundation's payment liability is the fair value of the future obligation to the donor regardless of the amount in the investment account.

At the date the agreements are made effective, the difference between the assets received and the fair value of the future obligation to the donor, the net asset, is recorded as a gift. Upon termination of each agreement's stipulated payout period, the remaining assets are distributed for the purpose designated by the donor.

Assets received in an annuity agreement transaction are represented by shares in the Foundation's long-term investment pool. Investment income, stipulated payments, and administrative expenses are recorded as temporarily restricted in the statement of activity.

The future obligation to donors and other designated individuals is accounted for at fair value using an income approach. Using an income approach to measure these obligations requires the Foundation to estimate the expected timing of payments associated with these obligations. These obligations are discounted to fair value using a discount rate consistent with Internal Revenue Service publications (Level 2) as of each balance sheet date (1.2% and 2.8% for the years ended June 30, 2012 and 2011, respectively). Under this method, the fair value of the future amounts payable is credited to the liability account. At year-end, an adjustment is made to the liability to record the change in the fair value of the obligation between years. The change is recorded in the statement of activity.

(Continued)

NOTE 9 – GIFT ANNUITY FUNDS (Continued)

Presented below is a roll forward of the fair value of the liability for the annuity assets at June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	$ 1,389,531	$ 1,208,864
New gifts	733,108	260,645
Annuity payments	(199,889)	(148,863)
Change in actuarial liability	334,843	68,885
	868,062	180,667
Balance at end of year	$ 2,257,593	$ 1,389,531

NOTE 10 – NET ASSETS

Temporarily and permanently restricted net assets are principally related to scholarships, specific schools within the University, department chairs, and various other purposes.

As of June 30, 2012 and 2011 net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2012			
Available for expenditure:			
Current operations	$ 2,904,736	$ 22,923,059	$ -
Endowments	2,425,879	46,467,544	-
Earnings on endowments	(134,661)	7,607,230	-
Beneficial interests in perpetual trusts	-	231,425	-
Real estate	-	941,432	-
	5,195,954	78,170,690	-
Unavailable for expenditure:			
Endowments	-	-	28,729,365
Trusts and annuities	-	-	2,833,770
Uncollected pledges, net	15,675	5,817,965	112,037
	15,675	5,817,965	31,675,172
	$ 5,211,629	$ 83,988,655	$ 31,675,172

(Continued)

NOTE 10 – NET ASSETS (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2011			
Available for expenditure:			
Current operations	$ 2,920,636	$ 22,839,211	$ -
Endowments	2,747,080	46,125,860	-
Earnings on endowments	(39,875)	13,913,687	-
Beneficial interests in perpetual trusts	-	237,942	-
Real estate	-	1,463,706	-
	5,627,841	84,580,406	-
Unavailable for expenditure:			
Endowments	-	-	27,467,269
Trusts and annuities	-	-	3,888,656
Uncollected pledges, net	27,338	7,468,592	10,918
	27,338	7,468,592	31,366,843
	$ 5,655,179	$ 92,048,998	$ 31,366,843

Included in the accompanying statements of activities are changes in the net asset designation of prior contributions. The donor may elect to change the designation of prior contributions. These transfers from temporarily restricted net assets to permanently restricted net assets were $511,592 and $446,769 during the years ended June 30, 2012 and 2011, respectively. Transfers of prior contributions from temporarily restricted net assets to unrestricted net assets were $141,238 and $2,921 during the years ended June 30, 2012 and 2011, respectively and transfers of prior contributions from permanently restricted net assets to temporarily restricted net assets were $120,000 and $534,235 during the years ended June 30, 2012 and 2011, respectively.

(Continued)

NOTE 11 – ENDOWMENTS

The Foundation's endowment consists of over 700 funds. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. In addition, the endowment also includes beneficial interests in two perpetual trusts that are administered by outside parties. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type as of June 30, 2012 and 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2012				
Donor restricted endowment funds	$ (134,661)	$ 54,074,774	$ 28,729,365	$ 82,669,478
Board designated endowment funds	2,425,879	-	-	2,425,879
Beneficial interests in perpetual trusts	-	231,425	-	231,425
Total	$ 2,291,218	$ 54,306,199	$ 28,729,365	$ 85,326,782
June 30, 2011				
Donor restricted endowment funds	$ (39,875)	$ 60,039,547	$ 27,467,269	$ 87,466,941
Board designated endowment funds	2,747,080	-	-	2,747,080
Beneficial interests in perpetual trusts	-	237,942	-	237,942
Total	$ 2,707,205	$ 60,277,489	$ 27,467,269	$ 90,451,963

Change in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2012				
At beginning of year	$ 2,707,205	$ 60,277,489	$ 27,467,269	$ 90,451,963
Investment return				
Investment income, net	54,785	1,754,545	-	1,809,330
Investment administrative fees	(32,355)	(1,036,217)	-	(1,068,572)
Investment consultant fees	(2,089)	(66,895)	-	(68,984)
Net appreciation (depreciation) (realized and unrealized gains and losses)	(145,508)	(4,666,550)	-	(4,812,058)
Underwater endowments	(94,786)	94,786	-	-
Total investment return	(219,953)	(3,920,331)	-	(4,140,284)
Gifts	-	1,438,092	870,504	2,308,596
Other income	-	40,799	-	40,799
Change in designation of prior gifts	(72,219)	(158,063)	391,592	161,310
Endowment spending transfers	(123,815)	(3,371,787)	-	(3,495,602)
At end of year	$ 2,291,218	$ 54,306,199	$ 28,729,365	$ 85,326,782

(Continued)

NOTE 11 – ENDOWMENTS (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2011				
At beginning of year	$ 1,553,487	$ 47,989,318	$ 27,156,359	$ 76,699,164
Investment return				
Investment income, net	61,542	1,917,336	-	1,978,878
Investment administrative fees	(33,005)	(1,026,718)	-	(1,059,723)
Investment consultant fees	(2,124)	(66,044)	-	(68,168)
Net appreciation (depreciation) (realized and unrealized gains and losses)	452,635	14,126,295	-	14,578,930
Underwater endowments	804,356	(804,356)	-	-
Total investment return	1,283,404	14,146,513	-	15,429,917
Gifts	25	1,605,925	373,377	1,979,327
Other income	-	5,974	25,000	30,974
Change in designation of prior gifts	-	27,310	(87,467)	(60,157)
Endowment spending transfers	(129,711)	(3,497,551)	-	(3,627,262)
At end of year	$ 2,707,205	$ 60,277,489	$ 27,467,269	$ 90,451,963

NOTE 12 – RELATED PARTY TRANSACTIONS

The Foundation made grants to the University in furtherance of the Foundation's mission and in compliance with donor restrictions. Additionally, grants were made to the University from unrestricted net assets at the direction of the Foundation's Board of Directors.

The Foundation made payments to the University in accordance with an operating agreement between the parties. Payments made under the agreement were $428,061 for the year ended June 30, 2012 and $437,210 for the year ended June 30, 2011. The payments were primarily for staffing used in the execution of Foundation operations. The amount payable to the University at June 30, 2012 and 2011 is $55,764 and $66,282, respectively. In addition, the Foundation rents certain facilities and information technology support from the University for nominal amounts as consideration in the operating agreement.

NOTE 13 – INVESTMENT ADMINISTRATIVE FEES

Endowment funds, annuity funds, and Kent State University Alumni Association funds invested in investment pools are assessed an administrative fee from the unrestricted fund. The 1.25% annual fee is used to offset unrestricted fund costs for administrative, clerical and fiduciary services. The monthly equivalent of the rate is applied against the preceding month-end investment balances in the calculation of the fee.

(Continued)

NOTE 14 – CREDIT RISK CONCENTRATIONS

Financial instruments which potentially expose the Foundation to concentrations of credit risk include cash and cash equivalents, investments in marketable securities and pledges receivable. As a matter of policy, the Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios. Concentration of credit risk for pledges receivable is generally limited due to the dispersion of these balances over a wide base of donors.

SUPPLEMENTARY INFORMATION

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Kent State University Foundation, Inc.
Kent, Ohio

We have audited the financial statements of Kent State University Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Foundation's Board of Directors, others within the entity, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2012

KENT STATE UNIVERSITY FOUNDATION INC.

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 3, 2013

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